EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI				
3	EXDIR				
4	D/ICS		X		
5	DDI				
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7	DDO				
8	DDS&T	X			
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	D/PERS				
16	VC/NIC				
17	C/S		X		
18	ES		X		
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	SUSPENSE _____ Date				

Remarks

_____
Executive Secretary

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Date

3637 (10-81)

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~~CONFIDENTIAL~~

attachment

THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

25X1

Date: 8/6/86 **Number:** 317,174 **Due By:** --------

Subject: Economic Policy Council Meeting - August 7

2:00 P.M. - Cabinet Room

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☐	☐
Justice	☐	☐
Interior	☐	☐
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☐
HUD	☐	☐
Transportation	☑	☐
Energy	☑	☐
Education	☐	☐
Chief of Staff	☑	☐
OMB	☑	☐
CIA	☑	☐
UN	☐	☐
USTR	☐	☐
EPA	☐	☐
GSA	☐	☐
NASA	☐	☐
OPM	☐	☐
SBA	☐	☐
VA	☐	☐

	Action	FYI
CEA	☐	☐
CEQ	☐	☐
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Svahn	☑	☐
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Executive Secretary for:		
DPC	☐	☑
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REMARKS:

The Economic Policy Council will meet on Thursday, August 7, 1986 at 2:00 P.M. in the Cabinet Room.

The agenda and background paper is attached for your review.

RETURN TO:

☐ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☐ Rick Davis
☐ Ed Stucky

Associate Director
Office of Cabinet Affairs
456–2800 (Room 235, OEOB)

THE WHITE HOUSE

WASHINGTON

August 7, 1986

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER EM

SUBJECT: Agenda and Paper for the August 7 Meeting

The agenda and paper for the August 7 meeting of the Economic Policy Council are attached. The meeting is scheduled for 2:00 p.m. in the Cabinet Room.

The single agenda item will be space commercialization. The Economic Policy Council has reviewed the issue of commercializing satellite launches and identified several questions to be resolved, including exceptions to a general policy of shifting commercial and foreign payload launches from the Shuttel to the private ELV industry. A paper is attached.

CONFIDENTIAL ATTACHMENT

THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

August 7, 1986

2:00 p.m.

Cabinet Room

AGENDA

1. Space Commercialization

Sanitized Copy Approved for Release 2011/06/20 : CIA-RDP88G01117R000702260003-1

THE WHITE HOUSE

WASHINGTON

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August 5, 1986

MEMORANDUM FOR THE PRESIDENT

FROM: THE ECONOMIC POLICY COUNCIL

SUBJECT: Commercializing Satellite Launch Services

In May 1983 you established as Federal policy that "the U.S. Government fully endorses and will facilitate the commercialization of U.S. expendable launch vehicles." The Economic Policy Council has studied a number of approaches for commercializing satellite launch services and is seeking your guidance on two critical questions.

Commercializing satellite launch services is an important step in expanding our commercial development of space. However, you should be aware that commercializing satellite launch services is very different from commercializing the use of space. The former is allowing the private sector to launch commercial satellites. The latter encompasses the use of space and all its resources in commercial endeavors, including materials processing, manned work stations, remote sensing and satellite communication.

That distinction has been an important element in the Council's deliberations. We want to commercialize launch services as quickly as possible, but we have tried to keep our eye on the longer term goal of commercializing space. We do not want to undertake any policies that would jeopardize the enormous commercial potential of space.

The Council is presenting you with two decisions that are necessary to begin commercializing satellite launches. Given our policy of shifting commercial launches from NASA to the private sector as quickly as possible, we face the following questions:

1. What, if any, exceptions should we make in shifting commercial and foreign payloads from the NASA Shuttle to private expendable launch vehicles (ELVs); and,

2. What, if any, government assistance should be provided to the private sector?

BACKGROUND

In the mid-1970s, the Federal Government established a policy that would discontinue government use of ELVs in favor of complete national reliance on the manned Shuttle. In 1983, you authorized National Security Decision Directive (NSDD) 94, which was intended to promote a private U.S. ELV industry. The wisdom of that decision has been confirmed by the loss of the Shuttle

Classified by Sherrie M. Cooksey
Office Executive Secretary

Challenger and the current absence of a means for launching commercial and foreign payloads, as well as a seriously impaired ability to launch military and scientific payloads.

As of January 1986, NASA had thirty-three full contractual commitments and eleven prefatory agreements for a total of forty-four commercial and foreign launches by 1995, as well as fifty earnest money deposits for launches. However, because the Shuttle is not expected to resume operations until the first quarter of 1988, with the top priority then being flying off the military and scientific backlog, the Council does not expect many of the forty-four launches to take place before 1992.

NASA's preliminary estimate is that, at most, it will find room on the Shuttle for only one commercial payload launch a year between 1988-89; four in 1990; and five per year beginning in 1991. Under this scenario, only fifteen of the forty-four payloads now under contract would be launched by the end of 1992. These estimates are based on the assumption of a fourth orbiter coming on line in 1991.

As its own step toward commercialization, NASA, to the extent feasible, will acquire ELVs from the commercial sector.

RELIANCE ON THE PRIVATE SECTOR

In examining the issue of commercializing satellite launch services, the Council grappled with a basic tension: the desirability and need for relying on the private sector to launch commercial payloads versus the concern that in a world of government controlled space agencies, a private U.S. launch industry would not be able to compete successfully.

- The potential private ELV launch industry wants a clear signal that they will not be forced to compete with NASA, a government entity. They argue that it would be foolish for them to make the costly investments in capital and marketing necessary to successfully enter the launch business unless they are assured they will not be in competition with the U.S. Government, either through Shuttle launches or NASA ELV capability.

- Despite the assurance of the private sector of their willingness and ability to provide launch services, there is some skepticism that our private sector can get the job done in the short term, and more importantly in the longer term, faced with subsidized competition from the European Arianespace, the Chinese, and potentially the Japanese and Soviets. Some Council members believe there is also a potential risk for other areas of the U.S. aerospace industry if a private sector space launch industry fails to materialize. The commanding position enjoyed by U.S. satellite manufacturers worldwide, for example, could be usurped by foreign manufacturers because foreign launch

competitors might be able to provide package deals involving sales of launchers and satellites.

ISSUES FOR DECISION

The starting point of our policy is your statement that "The U.S. Government fully endorses and will facilitate the commercialization of U.S. expendable launch vehicles." In addition, NASA shall no longer provide launch services for commercial and foreign payloads --- [subject to the following limited exceptions (to be determined below)].

Issue 1: Exceptions

The Administration's policy on commercial and foreign payload launches is clear: we want to rely on a private U.S. ELV industry. However, there are decisions that must be made before that policy is fully implemented.

The Council is presenting you with two questions: (1) what should we do to turn over all or some of the existing forty-four NASA contracts to the private sector; and (2) what sort of future commercial and foreign payload launches should NASA be able to contract for?

The Economic Policy Council has reviewed a number of possible exceptions to current and future NASA commercial and foreign payload policies. By choosing exceptions to the policy of shifting NASA commercial launches immediately and completely to the private sector, you will be answering the questions of what existing NASA contracts do we void and thus make available the private ELV industry and what sort of commercial and foreign launches NASA may contract for in the future.

1. No Exceptions

Under this approach, the forty-four existing NASA launch contracts would be terminated and made available to the private sector. In the future, NASA would not make any new contracts for commercial and foreign payloads under any circumstances.

2. Shuttle-Unique Payloads

NASA would fulfill its current contracts for, and in the future be able to engage in contracts for, payloads that are "Shuttle-unique." Payloads that are currently Shuttle-unique: (a) have a substantial requirement for manned presence or interaction; (b) are deployed and later retrieved and returned to earth; (c) remain in the Shuttle cargo bay to serve as a laboratory while in space; (d) are either too large or too heavy to be launched by existing expendable launch vehicles; or (e) require on-orbit assembly.

NASA, the Departments of Transportation and Commerce, and the National Security Council will evaluate the Shuttle uniqueness of specific payloads on a case by case basis.

Approximately eight of the current forty-four NASA contracts for commercial launches can be characterized as Shuttle-unique.

3. National Security and Foreign Policy

An additional exception for existing and future contracts might be based on national security and foreign policy concerns. It is sometimes difficult to neatly separate commercial launches from launches that have national security and foreign policy implications. The national security agencies believe it is important to preserve the option of placing some of the existing NASA foreign commercial contracts on the Shuttle and preserving a national security and foreign policy exception for the future.

The National Security Council shall review recommendations from the Departments of State and Defense for all proposed national security and foreign policy exceptions on a case by case basis.

At most, fifteen (five of which are shuttle unique) of the current forty-four NASA contracts would fit the national security and foreign policy exception.

4. Existing or Substantially Completed Payloads that would be Costly to Retro-fit

This proposed exception would permit NASA to launch existing contracted payloads that, if shifted to ELVs, would impose a substantial cost on the customer, caused by the need to alter the specifications of substantially completed (75 percent) payloads to fit an ELV.

Approximately twenty (one which is shuttle unique and six which are national security or foreign policy related) of the current forty-four contracts would be covered by this exception.

Under all of these first four possible exceptions you would issue an Executive Order stating that it is in the National interest that all NASA's forty-four contracts be abrogated. NASA would attempt to renew contracts to launch payloads that are excepted. The Justice Department and White House Counsel have determined that you have the authority to abrogate the contracts.

5. Honor Existing Contracts on a "Best Efforts" Basis

Under this approach you would not abrogate any of NASA's current contracts. Rather, NASA would make a "best effort" to honor all existing contracts. You would be able to give direction to NASA regarding payload priorities in such a way that we could achieve some of the exceptions noted above, exceptions 2, 3, and 4.

The advantage of this approach is that NASA would avoid contract termination, subsequent litigation, and possible judgements against the United States Government.

The disadvantage is that some of the existing contract holders will not receive a Shuttle launch, and may not know that immediately. It would be very disruptive to national security and scientific launches if we attempt to launch all forty-four existing contracts.

Issue 2: Subsidation and International Competition

The subsidy issue has two parts: (1) our subsidies to the private ELV industry; and (2) subsidies offered by our foreign competitors.

The optimal policy would be one in which no U.S. Government assistance were given to the private ELV industry. In reality, however, a U.S. ELV industry will have to compete with firms controlled and subsidized by foreign governments. Several members of the Council expressed particular concerns about the effects of foreign subsidized competition on the development and successful operation of a U.S. ELV industry.

Under existing law, the Government would subsidize private ELV launches in several ways. For example, the Government now offers what might be viewed as an R&D subsidy by making access to government developed launch systems, such as the Delta, Atlas/Centaur, and the Titan, and the R&D that went into those systems, available to the private sector. The Government may also be offering a subsidy by less than fully recovering all the costs (both fixed and variable) of the private sector use of Government launch facilities.

Government assistance under existing laws may well be sufficient to enable the U.S. ELV industry to compete with foreign government controlled and subsidized competition. Although exact figures are not available, an investigation under Section 301 of the Trade Act completed in 1985 found in general terms that European assistance to Arianespace was not dissimilar to the assistance available to U.S. industry under existing U.S. policies.

The best approach to the issue of subsidies might be to consult with foreign governments to determine precisely current levels of subsidy abroad and in the United States and to agree not to increase such levels unilaterally. If a negotiated result is not achieved, and foreign governments unilaterally increase their subsidies, the U.S. government would have to consider matching increased foreign subsidies to ensure the continued international viability of the U.S. ELV industry.

The Council has developed three broad approaches regarding subsidies. The primary purpose of these broad subsidy policies is to send a complete signal to the private ELV industry, not just telling them that they will be able to bid away NASA contracts.

These three broad policy approaches are:

1. The U.S. Government will provide no subsidies. This would require statutory changes eliminating what many view as current subsidies required by law.

2. The Government will continue existing policies regarding commercial launch subsidies. The U.S. Government would not recover sunk research and development costs and would only recover direct costs for use of Government-owned facilities and range safety and support.

3. The U.S. Government will match, if necessary, subsidies offered by foreign competitors to ensure the international viability of the U.S. ELV industry. Such subsidies could include government support for costs associated with launch failure investigations and design fixes to correct the cause of any such failure; assistance through funding of production start-up costs; investments in research and development to upgrade and increase performance; and funds to assure that commercial launch services attain a stable market-share and remain competitve with foreign launch systems.

Under all of these options, the United States Trade Representative, in consultation with the Departments of Transportation, Commerce, and State, and NASA shall initiate consultations with foreign providers of commercial launch services to seek to ensure an equal opportunity for the private U.S. ELV industry.

DECISION

The Council is presenting you with two sets of choices: (1) exceptions to a complete and immediate shift of commercial and foreign payloads from NASA to private ELVs; and (2) an appropriate signal on the question of subsidies.

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Exceptions

The only exception(s) to an immediate and complete shift of all existing and future commercial and foreign payloads from NASA to the private ELV industry should be:

_____ Option 1: No exceptions.

_____ Option 2: Exception for Shuttle-unique launches; and/or,

(Supported by Treasury, Transportation, OMB, CEA, USTR and OSTP)

_____ Option 3: Exception for national security and foreign policy considerations; and/or,

(Supported by Treasury, State, Defense, Transportation, USTR, NSC, CEA and OSTP)

_____ Option 4: Exception for costly retro-fit to ELVs under existing contracts; and/or,

(Supported by Treasury, USTR and OSTP)

_____ Option 5: NASA shall make best effort to honor all existing contracts.

(Supported by NASA)

Subsidies

_____ Option 1: No subsidies.

_____ Option 2: Continue existing policy regarding subsidies.

(Supported by Treasury, State, Defense, Transportation, OMB, USTR, NSC, CEA and NASA)

_____ Option 3: Match, if necessary, subsidies offered by foreign competitors to ensure the international viability of the U.S. ELV industry.

(Supported by USTR)

Options 2 and 3 are not mutually exclusive.

James A. Baker III

James A. Baker III
Chairman Pro Tempore